

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

REVIEW REPORT
OF
DEPARTMENT OF ADMINISTRATION
STATE OF INDIANA

April 1, 2002 to September 30, 2003

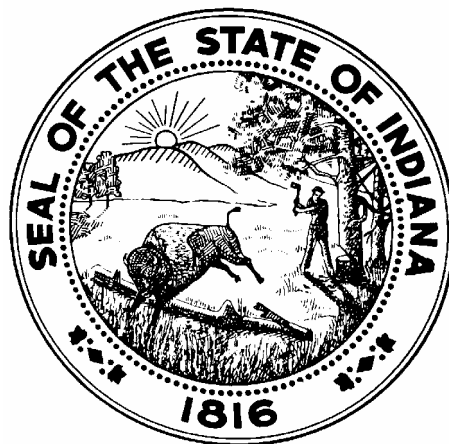


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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner	Mr. Glen Lawrence Mr. David Perlini (Deceased)	03-06-00 to 10-12-02 10-13-02 to 09-25-03
Acting Commissioner	Mr. F. Daniel Gettelfinger	09-26-03 to 10-05-03
Commissioner	Mr. Charles R. Martindale	10-06-03 to 01-10-05



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF DEPARTMENT OF ADMINISTRATION

We have reviewed the receipts, disbursements, and assets of the Department of Administration for the period of April 1, 2002, to September 30, 2003. Department of Administration's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Department of Administration are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations (except as stated in the review comments).

STATE BOARD OF ACCOUNTS

June 30, 2004

DEPARTMENT OF ADMINISTRATION REVIEW COMMENTS

LACK OF CONTRACT

As stated in our prior two Audit Reports B14417 and B19408, we found that the Department of Administration was operating without a written contract with Navigant International. There has been no written contract in place through June 2004. The Department of Administration (DOA) provides to state agencies this vendor for out of state travel arrangements. DOA pays Navigant a management fee. Claims paid during our audit period were for April 2002 to September 2003 and totaled \$83,820.

Indiana Code 4-13-2-14.2 requires a contract to which a state agency is a party must be in writing.

PAYMENT APPROVAL CONTROLS

As stated in our prior Audit Report B19408, we noted the following concerning the controls over the disbursing, recording, and accounting for financial activities of the Division of Information Technology: Claims were approved for warrant issuance without requiring certification of receipt on purchase orders or an indication of receipt and acceptance of goods or services by division staff for other agreements.

"The agency must maintain records which document the receipt and acceptance of goods or services, as applicable." (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 5)

PURCHASE ORDER PROCESS

As stated in our prior Audit Report B19048, the centralized accounting system for the State of Indiana is maintained by the Auditor of State. The size and scope of some state agencies necessitates additional internal accounting records for agency management and fiscal control. The Department of Administration obtained the PeopleSoft accounting software package for its own use, and has encouraged other state agencies to use the software. Each agency is responsible for their implementation costs.

The Department of Administration, Procurement Division, uses the PeopleSoft program to maintain its records of all purchase orders issued and to print the State purchase order forms. If an agency uses PeopleSoft for its purchasing, accounts payable, and general ledger records, then the Department of Administration gives the agency the option of whether to have the purchase order encumbrance recorded on the Auditor of State accounting system. The Department of Administration began issuing its own purchase orders without transmittal or recording by the Auditor of State in October 1999. Subsequently other agencies have chosen to not have their purchase orders transmitted to the Auditor of State for encumbrance. In these cases, the purchase order encumbrance is recorded on PeopleSoft only. At fiscal year end, exceptions or adjustments are required for some accounts in order to prevent unencumbered balances from reverting on the Auditor of State's accounting system. At that time, an agency has the Department of Administration reissue purchase orders for transmittal to the Auditor of State for encumbrance of any outstanding balances.

The purchase order form has corresponding disbursement documents known as the receiver and partial payment vouchers. When purchase orders are not transmitted to the Auditor for encumbrance, the correct disbursement forms are also not being utilized.

DEPARTMENT OF ADMINISTRATION
REVIEW COMMENTS
(Continued)

Indiana Code 4-13-2-7(a) states: "... the auditor of state shall, respecting all agencies of the state, do the following: (1) Maintain the centralized accounting records for the state, keep the general books of accounts on a double entry basis, and maintain accounts as will reflect in detail or in summary, all assets, liabilities, reserves, surpluses, revenues and receipts, appropriations, allotments, expenditures, and encumbrances except as otherwise provided in this chapter. The accounting records and procedures must provide complete fiscal control over all agencies of the state and over all activities carried on by them and be upon forms, records, and systems approved by the state board of accounts."

Each agency is responsible for maintaining an effective and accurate accounting system for subsidiary and supplementary records. At all times, the agency's manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank or Auditor's balance should agree. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

ACCOUNTING RECORDS

As stated in our prior Audit Report B19408, internal control procedures were not in place to ensure that the Department of Administration's accounting records were reconciled to the Auditor of State's records. We found three different fund/centers that were not reconciled during our audit period.

Each agency is responsible for maintaining an effective and accurate accounting system for subsidiary and supplementary records. At all times, the agency's manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank or Auditor's balance should agree. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

USE OF UNAPPROVED FORM

We found that the Daily Shift Reports and Summary Sheets used to record and account for collections of revenue by the garages have not been approved by the State Board of Accounts.

Indiana Code 5-11-1-2 states in part: "The State Board of Accounts shall formulate or approve all statements and reports necessary for the internal administration of the office to which they pertain."

FIXED ASSET INVENTORY

As stated in our prior seven Audit Reports, most recently B15417 and B19408, the fixed asset inventory of the Department of Administration is not complete as to additions and retirements, and assets have not been consistently tagged upon receipt. Additionally, an annual physical inventory of assets owned has not been conducted.

Each state agency is required to report to the Auditor of State all additions and retirements of assets with a cost of \$5,000 (\$20,000 effective July 1, 2002) or more. Assets costing more than \$500 must be maintained on an asset control system at the agency. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 10)

Assets at the minimum level of \$500 must be tagged. Assets should be tagged upon receipt. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 10)

DEPARTMENT OF ADMINISTRATION
REVIEW COMMENTS
(Continued)

FIXED ASSET AGREEMENT

As stated in our prior five Audit Reports, most recently B15417 and B19408, the Department of Administration, per IC 4-13-16-3, has the responsibility to maintain the State's fixed asset inventory. Through an informal agreement, the Auditor of State has assumed this responsibility. Procedures require each state agency to send timely updates of fixed asset purchases or retirements of \$5,000 (\$20,000 effective July 1, 2002) or more to the Auditor of State.

Through our testing we found that State agencies do not consistently comply with the above requirement. The Auditor of State has to rely on voluntary compliance from the state agencies due to legal authority resting with the Department of Administration.

PAYPHONE COMMISSIONS REVENUE

As stated in our prior Audit Report B19408, the Department of Administration did not consistently deposit receipts for payphone commissions revenue within the following business day.

Indiana Code 5-13-6-1(b) states in part: "... all public funds ... shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state not later than the business day following the receipt of the funds."

LEASE CONTRACT REQUIREMENTS

As stated in our prior Audit Report B19408, businesses located in the government center have lease agreements with the Department of Administration that require specific insurance coverage or performance bonds. Records presented for audit indicate that evidence of insurance or bonds were not obtained for four of the six lease contracts reviewed.

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1) Indiana Code 4-13-2-14.2 requires a contract to which a state agency is a party must be in writing.

OFFICE SUPPLY CONTRACT

As stated in the prior Audit Report B19408, the Department of Administration (DOA) contracted with a vendor to provide all state agencies with delivery of office supplies. Agencies order supplies from a customized catalog submitted by the vendor. DOA paid the vendor and billed each state agency for their orders. The contract was awarded based upon requests for proposals that included prices for some catalog items. The DOA Procurement Division is to insure that catalog pricing is in agreement with contract rates. We had found that DOA was not monitoring this function.

During this review there was no evidence that the contract pricing for paper was monitored during our review period. For the period January 1, 1999, to May 14, 2004, we found that the vendor, Boise Cascade, had overcharged the State by \$ 612,223.41. Boise's billings to the State of Indiana for paper were not in compliance with paper pricing set out in the two most recent contracts between Boise and the State of Indiana. We requested that Boise repay the total amount of \$ 612,223.41, however, they failed to repay. We recommended that the DOA pursue collection of the total overcharge.

DEPARTMENT OF ADMINISTRATION
REVIEW COMMENTS
(Continued)

In addition, DOA initially bid the original contract in 1994 thru their Operations Division. The normal DOA Procurement process would have been to bid this project thru the Procurement Division. As a result, we could not locate the contract bid file for the contract period July 1, 1994, to December 31, 1998. Preliminary analysis indicates that Boise may have also overcharged the State of Indiana for paper under this contract. However, due to the absence of this contract bid file we could not determine if the State of Indiana was properly charged for paper.

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

INTERNAL CONTROL OVER REVENUE COLLECTIONS

Garage Ticket Accountability

During our review, we noted a significant number of missing tickets recorded on the Daily Shift Reports that could not be traced to revenue collections in subsequent days. The number of net missing tickets for the selected months were as follows: sixty-three in May 2003, seventy-seven in August 2003, one hundred in September 2003, and eighty-two in January 2004. Tickets are considered accountable items. At all times accountable items should reconcile to the revenue received. Because we could not reconcile the missing tickets to revenue collections we could not verify that total revenues were receipted and deposited into a state account.

Supporting documentation to support monies received must be maintained and made available for audit to provide supporting information for the validity and accountability of monies received. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 3)

Lack of Contract

The Marriott Hotel is adjacent to the Washington Street garage and the Department of Administration has given the Marriott access to and use of the garage. Hotel employees had a key during our review period to open the garage for cars to exit after it is closed and an access card for valet parking of hotel patrons. There is no written contract for such arrangements. State revenue may have been lost due to hotel patrons leaving after hours without paying.

Indiana Code 4-13-2-14.1 and 14.2 require that a contract to which a state agency is a party must be properly approved and in writing. Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

SPECIAL DISBURSING OFFICER ACCOUNTS

Fund Reconciliations

As stated in our prior four Audit Reports, most recently B15417 and B19408, the Department of Administration did not perform bank or advance reconciliations in the prior audit period for all Special Disbursing Officer (SDO) advances. In the current review we found that there was no evidence that bank or advance reconciliations were performed during the review period for the Garage Pass SDO, LP number 5421, with the exception of the reconciliation dated September 30, 2003.

DEPARTMENT OF ADMINISTRATION
REVIEW COMMENTS
(Continued)

At least monthly, two reconciliations must be performed for the SDO fund. The bank statement for the checking account must be reconciled to the check register. Also, the check register must be balanced to the total SDO advance. These reconciliations must be formally documented. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 7)

The Special Disbursing Officer is accountable at all times for all sums advanced. The SDO officer may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 7)

Internal Controls over SDO funds

During our review of SDO bank and advance reconciliations, we found the following related items:

1. Some PeopleSoft SDO reconciliations were not in compliance with the components outlined in the State Accounting Manual, i.e. LP number, date prepared, preparer, reviewer, and SDO reimbursement detail.
2. Six SDO funds are reconciled using the PeopleSoft general ledger module. DOA did not generate a check register as a part of the SDO reconciliation process from the PeopleSoft system during our review period. Maintaining a check register as a part of the SDO reconciliation process is essential to an adequate internal control system. Due to the inadequate internal control system over the PeopleSoft system we could not rely upon the PeopleSoft system.
3.
 - a. The bank reconciliation for the Garage Pass SDO, LP number 5421, has outstanding checks totaling \$2,678 written between 1992 and 2002. The status of some of these checks to former employees cannot be verified due to lack of supporting bank statements and cancelled checks. In addition, outstanding checks over one year old should be forwarded to the Unclaimed Property Division of the Attorney General's office.
 - b. As of September 30, 2003, the cash in fund/center 6000/13600 totals \$130,637. The Department of Administration has 9,354 passes issued totaling \$102,894. Considering the outstanding checks of \$2,678, the fund/center is over funded by \$25,065. This amount should be deposited as miscellaneous revenue into the agency's general fund.
 - c. The Department of Administration should consider closing this fund center and issuing refunds to employees. Maintaining these funds are not cost effective.
4. The DOIT Special Disbursing Officer has maintained a manual check register in addition to the computerized PeopleSoft register since the implementation of PeopleSoft in July 1999. Several manual checks have been issued since March 2002. No record of these checks is recorded within the PeopleSoft check register. Operating two separate payment methods is poor internal control and should be discontinued. All manual checks should be destroyed.

Indiana Codes 32-34-1-26 and 27 require a holder of property presumed abandoned and subject to custody as unclaimed property to report in writing and pay or deliver the property to the Attorney General.

DEPARTMENT OF ADMINISTRATION
REVIEW COMMENTS
(Continued)

Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

COMPENSATORY TIME

As stated in the prior Audit Report B19408, the agency is not in compliance with the requirements of Financial and Management Circular 87-2.1. Specifically, Employee Compensatory Time Worksheets (State Form 42386) are not submitted with the employee's attendance reports.

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

DEPARTMENT OF ADMINISTRATION
EXIT CONFERENCE

The contents of this report were discussed on July 6, 2004, with Mr. Charles R. Martindale, Commissioner. The official response has been made a part of this report and may be found on Pages 11 through 14.

The contents of this report were also discussed on July 7, 2004, with Mr. Glenn Lawrence, former Commissioner; and by telephone, with Mr. F. Daniel Gettelfinger, former Acting Commissioner.



STATE OF INDIANA

JOSEPH E. KERNAN, Governor

DEPARTMENT OF ADMINISTRATION
OFFICE OF THE COMMISSIONER

Indiana Government Center South
402 West Washington Street, Room W479
Indianapolis, Indiana 46204

July 16, 2004

Charles Johnson III, CPA
State Examiner
State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, IN 46204-2738

Re: Official Response to Special Review

Dear Mr. Johnson:

Enclosed please find the Indiana Department of Administration's response to the Board of Accounts review comments covering the period April 1, 2002 – September 30, 2003.

If you should have any questions regarding this response please contact me at 232-0695 or by email at cmartindale@idoa.state.in.us. Specific technical questions should be directed to Jeffrey H. Underwood, Deputy Commissioner, Finance & Administration at 234-2409 or via email at junderwood@idoa.in.gov. Thank you.

Sincerely,


Charles R. Martindale
Commissioner

cc: Steve Abbott, Deputy Commissioner - Operations
Dan Dovenbarger - Deputy Commissioner and General Counsel
Jeffrey Underwood - Deputy Commissioner, Finance & Administration
Laura Larimer - Director, Department of Information Technology
J. Michael Degner - Controller

Glossary of Terms:

Agency = Indiana Department of Administration

Commissioner = Commissioner of the Indiana Department of Administration

DoIT = Department of Information Technology (division of the Indiana Department of Administration)

QPA = Quantity Purchase Awards

Lack of Contract:

The Department of Administration (Agency) issued a Request for Proposal (RFP) for professional services to assist the Agency's Travel Management Office in reserving flights and hotel accommodations for state employees with approved out of state travel requests. The RFP is currently under review by the members of RFP selection committee. The Agency expects to make an award and proceed as quickly as possible to execute a contract with the successful vendor (August 2004).

Payment Approval Controls:

All agency personnel have been instructed to review, sign, date, and forward to the appropriate staff all bills of lading, shipping documents, and any other receiving documentation noting what goods and quantities were received.

Purchase Order Process:

The purchase order form generated from the PeopleSoft electronic procurement software platform has been reviewed and approved for use by both the Board of Accounts and the Auditor of State. The Department is now encumbering any and all purchase orders processed by the Agency on behalf of all agencies with the Auditor of State. Agencies have the option of not encumbering purchases under their streamlining authority and paying via claim voucher per instructions issued by the Auditor of State. Any purchase orders issued by an agency under its streamlining authority and not encumbered at the Auditor's Office have been used for confirmation of an order placed by that Agency. Any agency that has been implemented on full financials has been instructed to complete monthly or at a minimum quarterly reconciliations between the Agency records in PeopleSoft and their records as reflected at the Auditor's office. It is the desire of the Department of Administration to submit any and all Purchase Orders to the Auditor's office for encumbrance. It is our desire to work with the Auditor's office on a process that can be accomplished electronically while minimizing the amount of paper records required to submit to the Auditor's office to accomplish the encumbrance. The Commissioner has submitted, in writing, to the Auditor of State a number of areas where the Agency would like to work cooperatively with the Auditor in order to automate the transfer of financial and human resource information between our two systems. We are currently waiting on a response to that letter from the Auditor.

Accounting Records:

The Commissioner recently reorganized the agency so that all accounting staff now reports directly to the Agency's Controller. In addition, the Commissioner created a new executive level position of Deputy Commissioner for Finance & Administration to oversee the activities of the Agency's fiscal and procurement activities as well as the Agency's Procurement Division and Government Management Information Systems (GMIS) office. All agency accounting staff has been instructed to reconcile monthly their accounts with the Auditor's records and submit such reports to the Controller.

Use of Unapproved Forms:

The Agency is reviewing all forms to ensure that they have been reviewed and approved by the appropriate oversight agencies. Any forms found to not have such approval will be submitted for approval or its use will be discontinued.

Fixed Asset Inventory:

The Agency has recently contracted with a firm to provide bar coding scanning capabilities that may be interfaced with the PeopleSoft Fixed Asset Module. This contract may be used by any State agency for the

purchase of bar code scanning hardware and are permitted to use the enterprise software for use with the hardware. The Agency has recently completed a fixed asset inventory and is in the process of updating the fixed asset records in PeopleSoft. The agency will conduct random checks of the inventory in order to ensure that it is being kept up to date. The Agency is working with the State Budget Agency in order to implement the financial and fixed asset modules in all executive branch agencies in order to facilitate the maintenance of a statewide fixed asset system that will be compliant with the State Accounting Manual and other state and federal requirements. The Commissioner has recommended to the Governor's Office that all executive agencies be directed to adopt a uniform financial and fixed asset system in addition to the current statewide PeopleSoft human resources and procurement modules.

Payphone Commissions Revenue:

DoIT accounting staff has been instructed to complete daily deposits of all funds received regardless of its source. The Controller will conduct periodic audits to ensure the timely deposit of all agency funds.

Lease Contract Requirements:

Performance bonds or Certificates of Insurance have been obtained on all business located in the government center and copies have been provided to your office.

Office Supply Contract:

The Agency is working with the Board of Accounts in the collection of the amount noted in the report. The agency has allowed the contract with Boise Office Supplies Corporation (Boise) for office supplies to expire. In addition, the agency has cancelled its other QPA contract with Boise for filing cabinets and has placed Boise on the Agency's suspended vendors list. All executive branch agencies have been instructed to cease doing business with Boise pending resolution of the contract dispute. The Agency has issued a new Request for Proposals (RFP) for office supplies and proposals by all offerors were due on July 16, 2004. A new contract(s) will be negotiated and issued for the purchase of office supplies in the near future.

Internal Control Over Revenue Collections:

Garage Ticket Accountability:

The Agency has hired additional staff and implemented additional procedures to fully account to the extent possible for all tickets issued. The Board of Accounts has reviewed these procedures and approved their use that if followed, will result in no future findings.

Lack of Contract:

This practice has been discontinued and Marriott staff no longer has a key or access to the Agency's Washington Street parking facility.

Special Disbursement Officer Accounts:

Fund Reconciliations:

As noted above the Commissioner has made organizational changes and accounting staff has been instructed to reconcile all bank accounts on a monthly basis and submit them to the Controller for review. Failure to do so will result in appropriate disciplinary action.

Internal Controls over SDO funds:

In addition to the comment noted above all accounting staff have been instructed to process their reconciliations in compliance with the components outlined in the State's Accounting Manual and to generate a check register as a part of the monthly reconciliation process and submit it along with the reconciliation to the Controller on a monthly basis.

The Agency is in the processing of developing a process to liquidate the funds in the Garage Pass fund and close the account. Any deposit that can be determined that the employee has been separated from State service for greater than one year or any outstanding check that has been outstanding for more than one year will be submitted to the Attorney General's office as unclaimed property. Any funds in excess of the impressed amount shall be deposited as miscellaneous revenues. The remaining funds will be distributed to current employees in a manner to be determined.

DoIT staff will be instructed to no longer issue any manual checks and to destroy all manual checks and verify what checks were destroyed and on what date and in the presence of the Controller.

Compensatory Time:

All Agency staff and supervisors have been notified of the proper procedures and state forms for recording the accrual and subsequent use of compensatory time. The Agency's Human Relations Office is reviewing all time sheets (Form A-4) on a biweekly basis to assure compliance.